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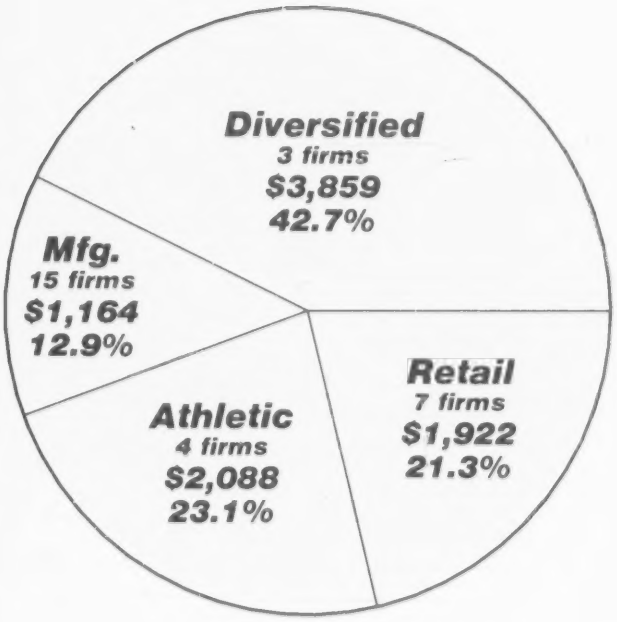
Footwear Profile For 1986

Athletic sector adds bounce to aggregate results of 29 public firms



Footwear Profile – FY '86
Sales by Sector
(in millions)

Footwear rebounded strongly in 1986, thanks to a remarkable performance by the athletic sector. The 29 public companies in this year's Profile added one billion dollars (12%) in sales and $116 million (52%) in profits to their combined fiscal 1985 totals. However, the four athletic footwear specialists by themselves accounted for three-quarters of that sales gain and all of the profit increase — plus another $30 million to cover losses elsewhere.

Reebok, Nike, L.A. Gear, and *Hyde* had a joint sales gain of 58%, while their aggregate profits jumped, jogged, and sprinted their way to $196 million, a 300% increase over 1985. The sector's largest previous profit total in the last five years was $57 million in 1983. *Reebok* tripled its sales and net income; *L.A. Gear* tripled and quintupled its figures on a much smaller base.

Stability and Reality.

Alongside such exciting numbers, the rest of this year's footwear Profile makes drab reading. Both are part of the same story, however. The industry appears to be stabilizing and coming to terms with the realities of imports, athletic styles, and the importance of controlling retail distribution more closely.

Imports of all footwear units rose by almost 12% in 1986, and they now represent almost 80% of the U.S. market's total supply of 1.3 billion pairs, according to statistics from Footwear Industries of America. Even so, there have been signs that the flood may have crested. Monthly fluctuations early in 1987, the declining dollar, and talk about self-imposed quotas from Taiwan and S. Korea offer some hope. More important, U.S. manufac-

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Footwear Sales and Earnings*

SALES RANK 1986	1985	Company	Sales ($000)	Net Income ($000)
1	1	U.S. Shoe Corp. 01/86-D	1,920,225	64,875
		01/87	2,003,246	25,472
2	3	F.W. Woolworth 01/86-C	1,586,000	189,000§
		01/87	1,817,000	230,000§
3	2	Melville Corp. 12/86-C	1,532,850	162,612§
4	4	Brown Group 10/86-D	1,400,196	40,138
5	5	Nike 05/86-A	1,069,222	59,211
		02/87	884,645	38,110
6	12	Reebok International 12/86-A	919,401	132,134
		03/87	1,026,643	145,782
7	6	Edison Brothers 12/86-R	904,200	33,900
8	9	May Dept. Stores Co. 01/86-C	696,700	97,600§
		01/87	934,000	138,000§
9	10	Morse Shoe 12/86-R	585,591	9,733
10	8	Interco 02/86-C	558,286	48,475§
		02/87	663,521	52,136§
11	7	Genesco 01/86-D	538,486	−33,929
		01/87	514,589	20,426
12	11	Wolverine World Wide 12/86-M	341,704	−12,589
13	13	The Stride Rite Corp. 11/86-M	283,457	17,014
		02/87	291,337	18,263
14	+	Shoe Town, Inc. 12/86-R	142,372	5,524
15	+	J. Baker, Inc. 01/86-R	116,678	3,863
		01/87	165,796	7,974
16	18	Weyenberg Shoe 12/86-M	106,703	4,310
17	+	Justin Industries 12/86	101,195	5,685
18	19	R.G. Barry Corp. 12/86-M	86,434	4,336
19	26	Spencer Co. 05/86-R	80,128	−8,567
20	21	Suave Shoe Corp. 09/86-M	75,351	2,623
		03/87	73,919	3,258
21	24	Hyde Athletic Ind. 12/86-A	62,740	3,331
		03/87	66,837	3,532
22	23	Tony Lama Co. 12/86-M	58,512	−1,762
23	25	Wiener Enterprises, Inc. 01/86-R	58,194	1,996
		01/87	75,381	1,407
24	+	Jumping Jack Shoes 04/86-M	41,657	1,208
25	+	L.A. Gear 11/86-A	36,299	1,745
26	+	Shoe City Corp. 06/86-R	35,348	1,719
27	27	B.B. Walker Company 10/86-M	31,649	−362
28	28	Sporto Corp. 01/86-M	28,789	−997
29	33	McRae Industries 07/86-M	23,278	1,185
30	29	Shaer Shoe Corp. 10/86-M	20,255	941
		01/87	18,931	1,150
31	32	International Seaway 12/86-M	20,003	743
32	30	Daniel Green 12/86-M	19,863	420
33	31	The Cherokee Group 11/86-C	18,803	+
34	34	Wellco Enterprises 06/86-M	14,107	2,374
		03/87	16,786	2,376
35	35	Penobscot Shoe 11/86-M	12,512	625
		02/87	13,107	1,002
		Sales Total:	**$13,150,870**	

Where previous years' figures have been restated by a company, they are not reflected in the Profile.

*Where available, quarterly data have been added to show latest 12 months' performance.

§Operating earnings.

+Unavailable.

turers are working to become more competitive while adapting their sourcing strategies for stronger support of market opportunities.

These developments, coupled with more diversification into retailing, raise the premium on better understanding of and responsiveness to consumer wants. One pay-off was already seen in the Profile's balance sheet for fiscal '86, where total inventories dipped under 40% for the first time in five years, and turnover rose to 3.22 — also a best performance.

Healthier Numbers . . . For Some.

Over-all, this year's sample of public footwear companies registered a composite 13.9% return on equity — ahead of both textiles and apparel. Before extraordinary items, the group's profit on sales was 3.8%. Only 1983 showed better numbers. Cost of goods sold in 1986 was a shade under 62%, down two points from 1985. This could reflect more competitively priced imports as well as higher productivity in domestic plants. The athletic sector reduced its COGS by 10%.

Once the Profile is divided into its four sectors, however, great disparities appear. The Athletic Footwear specialists outperformed everyone else by huge margins. Retailing, Diversified, and Manufacturers/Resources lagged behind, in that sequence. The sector comparisons can be seen on page 5.

Under the continuing push to diversify, both into retailing from manufacturing/sourcing as well as into apparel and other consumer products from footwear, homogenous sectors are becoming harder to find, and comparisons of their performances mean less.

By separating athletic specialists from footwear manufacturers, for example, the latter category looks weak indeed — despite nice turnarounds by *Suave* and *R.G. Barry*, and strong gains by *Stride Rite*, *McRae*, and *Penobscot*. However, the 15 firms in this sector lost 7% in sales, and the bottom line was virtually unchanged at less than 2% of sales.

Yet most of the manufacturing/resource firms are survivors who have learned to live with imports by finding secure market niches and improving their competitiveness. This traditional footwear sector is smaller than it once was, but it is achieving greater stability.

Classifications

Manufacturing/Resources (M) includes companies deriving 50% or more of their sales from footwear manufacturing or importing.

Athletic (A) includes companies that meet the above definition, but specialize in athletic footwear.

Retailing (R) covers companies deriving 50% or more of their sales from footwear retailing.

Diversified (D) is an arbitrary classification set up for companies primarily engaged in footwear, although they also derive some of their sales from other product categories. These companies manufacture, import, and retail footwear.

Conglomerates (C) are companies whose footwear volume, from either manufacturing or retailing, is significant but represents less than 50% of their sales. Only their sales and operating earnings appear in the table.

Meanwhile, its recently detached component, the Athletic Footwear sector, has gone into orbit with performance ratios double and triple those of other groups. Every man, woman, and child in America is alleged to own one pair of sneakers — and more are being purchased daily. Athletic styles account for 72% of all boys' footwear units sold, according to the Kormos, Harris research staff. The figures drop to 40% for men and girls, and only 18% for women, who still want to be able to change to pumps when they get to the office.

The phenomenal performance of *Reebok*, as noted, made the entire 1986 Footwear Profile look good, and the company will probably have a similar effect on 1987 results after it has digested its recent strong acquisitions — *Rockport, Avia,* and *Frye. Reebok's* $132 million in profits represented 39% of the Profile's total, on sales that were 10% of its gross.

The retail sector had increases of 8% in sales and 31% in profits (before extraordinary items). *Shoe City, Spencer,* and *J. Baker* joined the group this year, and *Simco* departed. An operator of leased departments in 400 stores as well as a wholesaler, *J. Baker* went public last summer . . . *Edison Brothers*, which derives 37% of its sales from apparel retailing, had a 12% gain over its disappointing 1985 sales, and this helped it achieve a 64% increase in pre-tax profits. The same measures were +8% and +40% for *Morse Shoe*, which only sells footwear.

The Diversified sector isolates large companies whose primary activity is footwear retailing, manufacturing, and importing. *Brown Group* and *Genesco* still meet that criterion, but *U.S. Shoe* derived 57% of its fiscal 1986 sales from non-shoe retailing (which has since risen to 61%). As with a growing number of similar companies, it will be classified as a consumer products conglomerate in the future — depriving the Footwear Profile of some $800 million in sales.

The Diversified sector's composite results are misleading because of *Genesco's* huge write-down of discontinued operations in its year ending 1/86. Although *Brown Group's* sales and earnings were flat, and *U.S. Shoe* had modest gains, the sales-weighted composites for the three companies are poor.

Genesco's results for FYE 1/87 are a different story, and underscore the virtues of finally abandoning a losing strategy. Once determined to be the first billion-dollar footwear/apparel company (Genesco led our first Profile in 1972 with $1.4 billion in sales, accompanied by a 3% ROE), the company's volume will be under $400 million this year. It has sold off assets representing over $100 million of its annual sales to raise cash and relieve over-

Footwear % of Total Sales at Conglomerates and Diversified Firms

			% of Total Sales
U.S. Shoe 01/86	$ 605,315	(M)	31%
	223,184	(R)	12%
01/87	553,041	(M)	28%
	220,884	(R)	11%
F.W. Woolworth 01/86	1,586,000	(R)	27%
01/87	1,817,000	(R)	28%
Melville Corp. 12/86	1,532,850	(R)	29%
Brown Group 10/86	1,055,841	(M&R)	75%
May Dept. Stores Co. 01/86	696,700	(R)	7%
01/87	934,000	(R)	9%
Interco 02/86	558,286	(M&R)	22%
02/87	663,521	(M&R)	25%
Genesco 01/86	180,574	(R)	34%
	120,020	(M)	22%
01/87	187,381	(R)	36%
	114,258	(M)	22%
Justin Industries 12/86	101,195	(M)	37%
The Cherokee Group 11/86	18,803	(M)	18%

M = Footwear Manufacturing
R = Footwear Retailing

Footwe

COMPANY	NET A.T. INCOME ON SALES %	86	85
J BAKER INC 01/86-R	3.31	14	12
R G BARRY CORP 12/86-M	3.99	+	++
BROWN GROUP INC 10/86-D	2.87	17	10
DANIEL GREEN COMPANY 12/86-M	2.11	18	2
EDISON BROTHERS STORES INC 12/86-R	3.75	11	13
GENESCO 01/86-D	-2.86	++	+
HYDE ATHLETIC INDUSTRIES 12/86-A	5.31	3	20
INTERNATIONAL SEAWAY TRADING C 12/86-M	2.14	+	+
JUMPING JACKS SHOES 04/86-M	2.90	16	14
L A GEAR 11/86-A	4.81	8	+
MCRAE INDUSTRIES INC 07/86-M	5.09	4	9
MORSE SHOE INC 12/86-R	1.66	19	16
NIKE INC 05/86-A	4.89	6	18
PENOBSCOT SHOE COMPANY 11/86-M	5.00	5	15
REEBOK INTERNATIONAL 12/86-A	14.37	1	1
SHAER SHOE CORP 10/86-M	1.16	+	3
SHOE CITY CORPORATION 06/86-R	4.86	7	7
SHOE-TOWN INC 12/86-R	3.88	10	5
SPENCER COMPANIES 05/86-R	-7.58	++	23
SPORTO CORP 01/86-M	-3.46	21	22
THE STRIDE RITE CORP 11/86-M	6.00	2	8
SUAVE SHOE CORPORATION 09/86-M	3.18	15	24
TONY LAMA COMPANY INC 12/86-M	-3.98	23	19
US SHOE CORP 01/86-D	3.38	13	11
B B WALKER COMPANY 10/86-M	-1.67	20	21
WELLCO ENTERPRISES 06/86-M	12.01	+	+
WEYENBERG SHOE MFG CO 12/86-M	4.04	9	6
WIENER ENTERPRISES INC 01/86-R	3.43	12	4
WOLVERINE WORLD WIDE INC 12/86-M	-3.68	22	17

\+ Extraordinary gains exceed 1% of net sales
++ Extraordinary losses exceed 1% of net sales

ar Performance Profile — Fiscal 1986

RETURN ON TOTAL EQUITY			TOTAL DEBT TO ASSETS			RETURN ON TOTAL ASSETS			SALES TO TOTAL ASSETS			GROSS PROFIT			OPERATING EARNINGS			INVENTORY TURNS			RETURN ON INVESTED CAPITAL		
%	86	85	%	86	85	%	86	85	%	86	85	%	86	85	%	86	85	%	86	85	%	86	85
731.63*	1	6	0.99	1	9	7.86	8	9	2.37	5	6	37.19	11	10	8.04	9	9	2.86	16	20	15.67	4	7
17.36	+	++	0.56	5	4	7.66	+	++	1.53	20	20	42.32	7	11	7.70	11	23	3.88	10	9	9.19	+	++
11.57	13	12	0.47	12	19	6.10	15	13	2.13	9	7	42.26	8	5	5.39	19	13	2.61	19	24	8.40	14	14
4.34	19	8	0.35	22	28	2.83	19	5	1.34	25	21	24.32	23	16	5.28	20	3	2.16	26	20	4.34	19	6
15.07	6	10	0.48	10	16	7.82	9	10	2.09	10	13	34.13	16	13	5.97	17	10	4.80	7	12	11.65	9	11
-41.05	++	+	0.71	4	3	-11.91	++	+	1.89	15	19	34.80	15	9	0.21	23	18	2.77	17	17	-19.12	++	+
13.09	11	20	0.48	10	7	6.80	11	20	1.28	26	28	35.28	13	14	11.32	5	21	2.02	27	27	11.04	11	20
8.70	+	+	0.14	28	27	7.49	+	+	2.02	12	8	17.21	27	26	-5.21	28	24	4.48	8	6	8.70	+	+
11.48	14	14	0.51	6	9	5.63	17	14	1.94	14	17	31.66	18	18	6.02	16	16	2.26	24	26	10.23	12	13
9.83	16	+	0.38	17	1	6.07	16	+	1.26	27	2	42.48	6	15	14.20	3	14	2.65	18	10	9.83	13	+
17.00	5	9	0.41	15	16	10.09	4	8	1.98	13	11	22.52	24	27	9.65	7	7	6.14	3	2	15.61	5	8
7.03	18	15	0.49	8	12	3.60	18	15	2.17	8	10	41.80	9	7	5.43	18	19	2.53	21	25	4.48	18	16
18.67	4	16	0.33	23	15	12.42	3	17	2.24	7	18	32.39	17	22	12.82	4	17	3.95	9	14	17.81	3	15
7.29	17	18	0.14	28	29	6.25	12	16	1.25	28	27	35.90	12	17	6.74	15	26	3.67	11	8	7.29	17	17
44.40	2	1	0.32	24	20	30.00	1	1	2.09	10	14	43.23	5	4	27.99	1	1	5.63	5	7	44.30	1	1
8.02	+	5	0.16	27	26	6.71	+	4	1.45	23	16	10.00	28	28	1.18	22	7	11.57	1	1	8.02	+	4
21.70	3	4	0.31	25	24	14.88	2	3	3.06	2	1	52.13	1	1	17.12	2	2	3.17	13	14	17.82	2	3
12.23	12	3	0.49	8	6	6.25	12	7	1.61	19	25	43.82	4	3	10.35	6	5	1.54	28	28	7.78	16	9
-167.13	++	24	0.76	3	5	-40.43	++	24	3.78	1	3	29.28	19	21	-6.20	29	27	3.23	12	11	-161.34	++	24
-8.92	22	22	0.36	20	23	-5.75	22	22	1.66	18	23	21.99	25	24	-3.60	25	28	2.46	22	22	-8.92	23	22
13.86	7	13	0.37	19	21	8.75	6	12	1.46	22	26	44.21	3	6	9.27	8	15	2.55	20	18	12.84	7	12
10.00	15	23	0.38	17	16	6.17	14	23	1.77	17	15	20.22	26	29	6.76	14	29	6.03	4	5	8.35	15	23
-6.32	20	19	0.51	6	8	-3.07	21	19	1.02	29	29	26.53	22	23	-4.20	26	25	1.42	29	29	-4.17	21	19
13.59	8	11	0.44	14	13	7.63	10	11	2.26	6	9	40.21	10	8	7.79	10	12	3.13	14	13	11.39	10	10
-7.74	21	21	0.80	2	2	-1.55	20	21	1.35	24	24	27.95	20	20	3.44	21	20	2.43	23	16	-3.76	20	21
39.05	+	+	0.36	20	13	25.15	+	+	1.49	21	11	5.62	29	25	-4.72	27	4	8.31	2	3	33.95	+	+
13.24	10	7	0.25	26	25	9.91	5	6	2.45	3	5	34.94	14	12	6.82	12	11	5.22	6	4	13.24	6	5
13.43	9	2	0.39	16	22	8.22	7	2	2.40	4	4	45.59	2	2	6.82	12	6	2.26	24	23	12.23	8	2
-12.34	23	17	0.45	13	9	-6.75	23	18	1.83	16	22	27.91	21	19	0.11	24	22	2.99	15	19	-8.82	22	18

*J. Baker's ROE calculation based on prospectus dated 06/86

Net after-tax income percentages in first column are before extraordinary items; all other ratios are based on net after-tax income after extraordinary items.

extended debt. In the process, *Genesco* is also decentralizing, giving up the chain business, and concentrating on its own more profitable retail operations, where it will emphasize faster response and greater flexibility in the marketplace.

While some of the companies that once dominated the footwear industry are deliberately reducing their stakes in it, others are pursuing growth. *Interco's* acquisition of *Converse* puts it into the athletic market while bringing footwear back up to one-quarter of its total sales. *Woolworth's Kinney Shoe* group now contributes over 28% of that chain's total business.

Such moves underscore today's realities in footwear; the companies that import athletic styles and those that retail them now dominate the industry. The permanence of this arrangement, as always, will depend upon the consumer's taste.

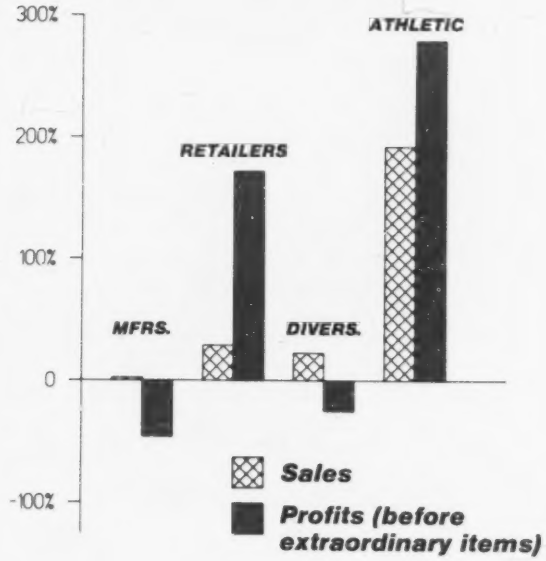
Disclaimer

The information presented in this Performance Profile was obtained from available annual reports made by public companies to their stockholders and to the Securities and Exchange Commission. While we believe the information furnished to be reliable, no representations are made as to the accuracy thereof. Kurt Salmon Associates assumes no responsibility for any errors in the Performance Profile, whether of omission or commission. Information presented herein is based solely on publicly-available data; the confidentiality of KSA's client relationships has been maintained throughout. KSA's Financial Performance Profile is intended solely for the statistical information of the purchaser. It is not a representation, prospectus, or circular in respect of any stock or security of any corporation. The data and comments contained herein do not constitute investment advice in any form.

Industry Sector Results

Industry Sectors	No. of Firms Reported	Sales ($000)	Net Income ($000)	Net After-Tax Income on Sales %	Return on Total Equity %	Total Debt to Assets	Return on Total Assets %	Sales to Total Assets	Gross Profit %	Oper. Earn. %	Inv. Turns	Return on Invested Capital %
Manufacturers/Resources (M)												
1986	15	1,164,274	20,069	1.72	4.84	.42	2.81	1.63	32.17	4.16	3.03	3.90
1985 *(FY '85 Profile: 16)*	15	1,254,129	19,574	1.56	4.78	.45	2.63	1.69	30.25	3.07	3.14	3.63
Retailers (R)												
1986	7	1,922,511	48,168	2.51	11.02	.51	5.36	2.14	37.84	5.98	3.20	7.58
1985 *(FY '85 Profile: 5)*	7	1,772,743	43,842	2.47	9.94	.48	5.22	2.11	36.45	6.52	2.97	7.16
Diversified (D)												
1986	3	3,858,907	71,084	1.84	7.84	.49	3.96	2.15	40.20	5.86	2.88	5.80
1985 *(FY '85 Profile: 3)*	3	3,713,490	107,611	2.90	11.64	.48	6.10	2.10	39.86	6.34	2.82	9.50
Athletic Footwear Mfg. (A)												
1986	4	2,087,662	196,421	9.41	29.85	.34	19.74	2.10	37.42	19.48	4.30	28.94
1985 *(FY '85 Profile: 3)*	4	1,318,765	49,090	3.72	12.82	.46	6.96	1.87	30.38	9.33	3.22	12.34
Composite Total												
1986	29	9,033,354	335,742	3.72	13.90	.45	7.63	2.05	38.02	8.82	3.22	11.00
1985 *(FY '85 Profile: 27)*	29	8,059,127	220,117	2.73	10.20	.47	5.43	1.99	36.07	6.36	2.97	8.21

5-Year Percentage Changes in Sales and Profits



Top Performers

Return on Total Equity

	1986 %	1982-86 %	Rank
1 Reebok Intl. (A)	44.40	—	—
2 Shoe City Corp. (R)	21.70	—	—
3 Nike, Inc. (A)	18.67	17.48	1
4 McRae Ind. (M)	17.00	—	—
5 Edison Bros. (R)	15.07	13.03	7

Net Income on Sales

	1986 %	1982-86 %	Rank
1 Reebok Intl. (A)	14.37	—	—
2 Stride Rite Corp. (M)	6.00	4.49	4
3 McRae Ind. (M)	5.09	—	—
4 Penobscot Shoe Co. (M)	5.00	2.52	9
5 Nike, Inc. (A)	4.89	4.81	3

Composite Profit and Loss Data — Footwear Industry
(29 Companies)

FISCAL PERIOD ENDING	1986		1985		1984		1983		1982	
	$	PCT	$	PCT	$	PCT	$	PCT	$	PCT
Net Sales	9033354	100.00	8059127	100.00	7703017	100.00	7223849	100.00	6409549	100.00
-Cost of Goods Sold	5598802	61.98	5152547	63.93	4945126	64.20	4585871	63.48	4132335	64.47
Gross Profit	3434552	38.02	2906580	36.07	2757891	35.80	2637978	36.52	2277214	35.53
-Sell. Gen. & Admin	2638170	29.20	2394055	29.71	2215879	28.77	1998848	27.67	1763913	27.52
Operating Earnings	796382	8.82	512525	6.36	542012	7.04	639130	8.85	513301	8.01
-Interest Expense	93390	1.03	97245	1.21	83428	1.08	86249	1.19	77512	1.21
Misc. Inc. or Exp.	-9206	-0.10	-13502	-0.17	15043	0.20	9374	0.13	-17755	-0.28
Income Before Tax	693786	7.68	401778	4.99	473627	6.15	562255	7.78	418034	6.52
- Income Tax	347513	3.85	186439	2.31	214328	2.78	269883	3.74	198081	3.09
Income after Tax	346273	3.83	215339	2.67	259299	3.37	292372	4.05	219953	3.43
Extraordinary Item	-10531	-0.12	4778	0.06	7313	0.09	7530	0.10	82	0.00
Net Income	335742	3.72	220117	2.73	266612	3.46	299902	4.15	220035	3.43

FLOW OF FUNDS ANALYSIS					
Working Cap at Start	1825611	1678400	1659550	1376242	1311971
Net Income	335742	220117	266612	299902	220035
Depreciation	139823	123891	117634	104998	92626
Change in L-T Debt	112290	13587	-55644	51475	-16077
Change in Deferred	40162	40768	38708	-6868	9281
Change in Pref Stk	375	21224	-14508	-39771	-27061
Change in Common	85965	76402	10061	174573	11829
Dividends Paid	-92699	-95062	-84329	-68931	-65198
Capital Expend	-217849	-211819	-216120	-177868	-161583
Misc Assets Change	-143087	-32825	-25966	-17414	-7364
Misc Transactions	-31748	-9072	-17598	-36788	7783
Working Cap at End	2054585	1825611	1678400	1659550	1376242

The Complete Profile

A full print-out covering fiscal years ending 1982 through 1986 is available for in-depth comparisons and study.

For each of the companies, as well as the industry segment composites and the total industry aggregate, the report contains a full financial statement, a balance sheet, and a comprehensive list of ratios.

It is available from KSA in print or diskette (dBaseIII — Lotus) at a cost of $200.

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